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SUBJECT: HIGH RICE PRICES FUEL FEARS OF SHORTAGES

¶1. Summary: Export prices for Thai rice have doubled in the past few months, with white rice hitting \$800 dollars per ton. High domestic prices have led some of Thailand's top rice exporting competitors like Vietnam and India to restrict exports, reducing an already thin trade of rice and fueling scares of rice shortages around the region. Thailand's exports have climbed as a result, but declining stocks and an inability to quickly increase production mean exports will soon slow. Although domestic prices are rising together with export prices, the RTG has thus far held off on measures to restrict exports and is releasing a portion of government stocks at low prices to combat domestic price increases. On the upside, rice farmers are seeing dramatically higher revenues from this year's second crop, but higher fertilizer and diesel costs are negating much of the benefits. Burmese refugees in Thailand and vulnerable populations in other countries are feeling the pinch as aid organizations struggle to find supplies and stretch budgets to cover higher food prices. End Summary.

¶2. Ministry of Commerce officials plan to meet with businessmen and farmers from the rice industry on Saturday, April 5 to discuss options on the rapidly increasing price of rice and dwindling stocks available for domestic consumption and export. As yet there has not been serious discussion of an imminent limit on exports or domestic price controls, though Commerce officials have said they may be considered later in the year if prices continue to soar. Although urban consumers have been hit with higher prices, the prices have been a boon to farmers and rural communities, many of which supported the current administration in recent elections, and the government may be wary to take any action that would hurt them. However, Thailand's Cabinet this week did approve a Ministry of Commerce proposal to repackage rice from government stocks in five kilogram bags and sell at reduced prices, but it is unclear how they will be distributed.

High prices, low stocks

¶3. Curbs on rice exports from rice exporting nations including Vietnam, India, China, Cambodia and Egypt have helped increase demand for Thai rice and nearly double rice prices in the last year. Prices for 100% white rice have hit \$800 per ton, double that of three months ago, and prices are projected to hit \$1000 by June. Export prices for top-grade jasmine rice have already hit \$1009 per metric ton this week, the highest level since 1974. Mr. Vichai Sriprasert, president of major exporter Rice Land International, said that prices may hit \$1200 very soon as the Philippines is expected to issue a large tender on April 17 and may find it difficult to fill the bid without offering top dollar. Domestic prices have jumped about 35 percent from the previous year.

¶4. Already the world's top exporter, Thailand's rice traders are doing a booming business as volumes have jumped 71.6 percent year-on-year from January through March 21. Due to Vietnam's limits

on exports of its low-cost rice, Thailand's exports to Africa boomed in January and February, particularly to Mozambique, Togo, Benin, Ivory Coast and South Africa. Exports to the U.S. are up 32 percent in value through February. The U.S. typically purchases approximately seven percent of Thailand's total rice exports, mostly high-end jasmine rice.

15. Rice traders have been exporting at a rate of one million tons of rice per month since last October, but may not be able to long sustain that rate as stocks dwindle. Much of the increase in exports in the past year has come from a drawing down of government stocks that had built up as part of a government rice intervention program to support local farmers. Those stocks have dropped to 2.1 million tons, down from 4.8 million tons, and will likely be sold on to the domestic market rather than exported. Despite the big start this year, the Ministry of Commerce has set an export target of only 8.75 million metric tons for 2008, compared to 9.55 million tons actually exported in 2007. Rice Land's Vichai said price increases would likely ease global demand toward the latter part of the year.

16. High export prices are fueling a run on rice stocks to meet global demand, but rice farmers are unable to ramp up domestic production to meet the increased demand. Milled rice production is expected to stay steady at approximately 18.5 million tons for the year. Despite the higher prices, limited amounts of water and suitable land in Thailand mean little leeway for quickly switching cropland to rice production. As well, prices for other commodities including corn and palm oil are also on the rise, meaning less motivation for farmers to switch out of other cash crops to meet the rice demand.

17. Domestic rice supplies are expected to be sufficient in 2008, albeit at higher prices. However, there are reports of temporary

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supply difficulties as speculation has interfered with normal market movements. Dr. Darnp Sulkontasap, Senior VP of Tesco-Lotus, said rice is disappearing from the shelves and his grocery stores are short on rice as suppliers are delivering only about 20 percent of Tesco's orders. Traders say they have had trouble finding enough supply to fill orders, either because of a shortage of rice on the market or because millers are holding on to rice stocks in anticipation of higher prices. Millers have taken to parking trucks by rice fields and purchasing crops directly from farmers and bypass the paddy traders who have also held stocks.

Why are rice prices going up?

18. Mr. Sumiter Broca, a policy analyst for the U.N. Food and Agriculture Organization in Bangkok, noted that rising rice prices have been part of an overall trend of increasing agricultural commodity prices over the past few years. In the relatively short term, the recent surge in oil prices pushed up fertilizer and diesel costs for farmers, and transport and shipping costs rose for traders and exporters. Droughts in Australia and unseasonably cool weather in Vietnam and China also helped slow global rice production. However, Broca said that long run factors have also kept rice consumption growing faster than rice production. Growing economies in the developing world have spurred demand for more and better quality rice, particularly in Africa. At the same time, the improvements in yields that began during the Green Revolution in the 1960s and 1970s have plateaued, and productivity increases have not kept pace with population growth. Broca blamed a lack of investment in rural infrastructure and a paucity of improved rice strains for the low yield increases. He predicted that prices would stay high over the next three to five years, though much would depend on energy prices.

Farmers win, refugees lose

19. Farm-gate prices have risen strongly since the beginning of the year, generating sensational press stories of rice thefts and farmers guarding their fields by night to protect the valuable

crops. Prices for second crop white rice now being harvested have climbed from an average of 6000 baht/ton (USD 185) in 2007 to over 10,500 baht/ton (USD 330) currently. However, farmers complain that climbing fertilizer and transport costs have eaten up much of the extra revenue they have seen from the higher prices. Although widely suspected of benefiting the most from the higher prices, Mr. Vichai of Rice Land said rice exporters were struggling with the rapidly changing prices, signing contracts for prices that become unprofitable by the time the orders are filled.

¶10. Relief organizations fear that they will be faced with cuts in food aid to over 140,000 Burmese refugees on the Thai-Burma border. Jack Dunford of the Thailand-Burma Border Consortium (TBBC) said his group faced a USD5.8 million shortfall in overall funding, and was unable to locate sufficient supplies of affordable rice for the refugee camps. If present price and funding trends continue, rice rations will have to be slashed to a level that TBBC estimates will result in malnutrition in children within 60 days. Paul Risley, Asia spokesman for the World Food Program, said that higher food prices had forced the WFP to increase its operational budget in Asia by an additional 159.8 million, one-quarter higher than its original budget. Risley said that rice traders had defaulted on three contracts in the past three weeks, and WFP's warehouses in Cambodia held enough stocks for only three to four days.

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